COMMENT/ *By Sanford Rose*

How To Materially Lower Volatility of Loan Losses

Many bankers are coming to the realization that they are undermanaging the risk in their commercial-loan portfolios. Loan risk is both individual and collective. It depends on the default probability of specific loans. But it also depends on the relationship among default probabilities.

Banks lay considerable stress on individual loan risks but pay scant attention to collective ones. The industry needs to develop more confidence in the available tools for assessing and modifying collective risks.

Consider two loans, A and B, made to borrowers with equally powerful balance sheets and therefore equal probabilities of default. Loan A, however, is likely to default when the rest of the bank's portfolio is experiencing little or no difficulty, while loan B is apt to go bad when the rest of the portfolio is also going into the tank. Loan A is said to be negatively or inversely correlated with the rest of the portfolio. Loan B is said to be positively correlated.

Quite obviously, despite the fact that both loans are equally risky when viewed individually, the bank should prefer A to B because adding that loan to the portfolio will lower the risk of simultaneous defaults while adding loan B will increase that risk. Indeed, because borrower A is a more desirable customer from the bank's overall viewpoint, it should be willing to consider charging him a lower loan price than it charges borrower B.

In point of fact, few banks set their loan charges according to an analysis of how the fortunes of new borrowers are likely to move together or "covary" with those of the existing borrower population. Banks don't normally compute borrower covariances or correlations, primarily because of doubts about the value of such calculations.

To be sure, correlations among borrowers are not especially stable over time. But that may not be very important.

The key question is whether groups of borrowers who are negatively correlated tend to remain so, to greater or lesser degrees, and whether the same is true for those who are positively correlated. If the answer is yes, a bank can normally benefit by adding to the portfolio borrowers with historically inverse default relationships and eliminating from the portfolio those with traditionally positive loss linkages.

Retrospective Tinkering

To test the usefulness of historic correlation data, Oliver, Wyman & Co., a New York-based consultant to the financial services industry, constructed the following example. It took the actual 1988 customer mix of a real-life bank and assumed that this same mix had obtained during the period from 1973 through 1980. It then calculated the 1973-1980 standard deviation of loan losses – the square root of the variance of losses from their mean value – for this mix of loans. The calculation was made using data on the correlation of bankruptcies among industries during that same eight-year period. Since the standard deviation measures the extent by which actual losses diverge from their average or expected value, it is a valid proxy for overall credit risk.

The next step was to do some retrospective portfolio tinkering, based again on the 1973-1980 bankruptcy data. Oliver, Wyman found that roughly 10% of all industries were negatively correlated from 1973 through 1980.

For example, the correlation of losses between the chemical and the textile industries amounted to a negative .34. This means that every 1% increase in loss rates among chemical producers was associated with a 0.34% decrease in loss rates among textile makers.

'Do borrowers who are negatively correlated tend to remain so?'

Such a negative correlation seems intuitively plausible since chemicals are widely used in fabric manufacture. So the textile industry may benefit from falling chemical prices, which of course damage the chemical companies, and may be hurt by rising chemical prices, which help the chemical companies.

Other negative relationships are somewhat less intuitive. For example, an improvement in the fortunes of general contractors was associated with a decline in the fortunes of the textile industry. Loss correlations between the two amounted to a negative .65 from 1973 through 1980.

Of course, many businesses were positively correlated – and often strongly so. Examples were food manufacturing and retail furniture as well as other retail and some services industries.

Favoring the Negative

Oliver, Wyman simply increased the proportion of the portfolio lent to pairs of industries showing high negative correlations and concomitantly decreased the portfolio weighting for pairs of businesses exhibiting high positive associations. For example, it increased loans to textiles and chemicals and reduced those to the retail and services sectors.

Then it recomputed the standard deviation of losses. This exercise in retrospective portfolio tinkering managed to lower 1973-1980 loan-loss variability by some 17%. (The consultant might also have lowered the bank's risk by substituting loans to pairs of borrowers who were less positively correlated than other pairs of borrowers. It may be possible to find industries that are somewhat interdependent but always more independent of each other than are other industries.)

To test the permanence of the improvement in credit quality, the consulting firm redid the experiment for a recent period. That is, it calculated the standard deviation of losses from 1981 through 1988 for the bank's original portfolio as well as for the portfolio with the revised loan weightings. This time, of course, it based the calculation on the correlation of bankruptcies since 1980.

If the correlations prevailing in the 1973-1980 period were directionally valid, then the portfolio adjustments made using these data would serve the bank well in subsequent years. That, in fact, turned out to be the case. The standard deviation of losses for the portfolio with the revised loan weightings was 32% lower during the 1981-1988 period than that for the unadjusted portfolio.

History Isn't Bunk

The upshot seems to be that banks can materially improve prospective credit quality through retrospective analysis. Negative loss correlations among industries tend to remain negative and positive correlations tend to remain positive. This may not be true for all types of borrowers, but it is apparently true for enough of them to warrant intensive study of the available historic data on customer covariances.

A bank that succeeds in reducing loan-loss variability can afford to operate with less capital per dollar of loan assets. If loss volatility was previously so great that the bank felt compelled to hold more capital than the regulators required, a reduction in that volatility can lead to

See **HOW** *page* **13**

CRIME BLOTTER/ *By Tom Leander*

Con Artist Draws 25-Year Sentence

A federal judge in Bloomington, Ind., sentenced Bridget Jones last week to 25 years in federal prison for her part in a $10 million laundering scheme.

According to Bloomington U.S. Attorney Patrick Chesley, Ms. Jones and her former husband, Richard Jones, traveled the United States promoting loans from their private finance company to people attending financial planning seminars.

Mr. Chesley said the couple offered million-dollar loans for flat rates between $2,000 and $4,000, and then left town, without turning over any money to customers. Ms. Jones deposited the $10 million earned in the scam in 120 bank accounts, and then wired the money to a numbered account in Uebersee Banc, Zurich. They subsequently wired the money to a correspondent bank in New York.

Richard Jones died in 1986. Ms. Jones was convicted of mail fraud and conspiracy in 1987.

* * *

Thief Strikes While Cops Are on Clue Hunt

As police were combing the vault of Somerset Savings Bank in Somerville, Mass., for clues following a robbery, a thief hit a nearby branch of the same bank.

At 8:30 a.m. on Feb. 10, two robbers apparently cut a two-foot-square hole from an office over the bank vault at the Somerset branch in Union Square, then shimmied down into the vault and stole an undisclosed amount of money, according to Somerville police Officer Timothy Nargi.

When two bank employees opened the vault, they were ordered to lie on the floor as the thieves fled.

As police were investigating Union Square branch crime, a blonde man walked into Somerset Savings Bank banch on Broadway and told a teller, "I have a bomb." The teller handed over about $200 and the man fled, police said.

The two heists were unconnected, according to Officer Nargi of the Somerville police.

* * *

Police on Coast Kill ATM Crime Suspect

A police officer shot and killed a suspect after he allegedly robbed a man at a Bank of America automated teller machine in Long Beach, Calif.

On the night of Feb. 9, a passing motorist tipped off Long Beach police from a car phone that a "suspicious individual" was hiding in the bushes near a Bank of America ATM, according to officer George Fox, a Long Beach homicide detective.

When officers James Hill and Ralph Robbins reached the bank, which was on the corner of Willow Street and Daisy Avenue in Long Beach, they saw two suspects beating a man who had apparently just withdrawn cash.

One of the suspects made a run at Officer Hill clutching a "gunlike" object, the officers later said. Officer Long fired and hit the man, who continued to flee.

Officer Robbins pursued the man for two blocks, where he shot and killed him where he was crouched behind a car. The man was still holding the object, which turned out to be the victim's black wallet, Officer Fox said.

Police identified the slain suspect as 22-year-old Dennis Moore. The second suspect, 24-year-old Keith Hughes of Compton, Calif., was arrested near the ATM. There will be an investigation into the shooting, Officer Fox said.

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Big Canadian Banks Launch Push South of the Border

Continued from *page 1*

Royal Bank chairman Allan Taylor told analysts in September that he is studying one or more U.S. retail banking acquisitions. The bank also plans to be a major player in increased cross-border trade arising from the U.S.-Canada trade agreement; it will open a branch in Buffalo this month.

Securities Underwriting Power

Both Royal Bank and Canadian Imperial obtained securities underwriting powers from the Federal Reserve Board last month in a move to broaden their activities in the United States.

The two banks plan to use their new powers to underwrite and distribute corporate debt issues on behalf of their Canadian and multinational customers.

In addition to underwriting, Bank of Montreal, Royal Bank, and Canadian Imperial seek to develop a more sophisticated range of activities, including asset securitization, private placements, mergers and acquisitions, corporate restructurings, equipment leasing, and treasury operations linked to interest and foreign exchange management.

Mr. Barrett said much of Bank of Montreal's growth will come from "leveraging" its U.S. operations. The rest will be generated by acquisition-based expansion, he said.

Expanding Retail Presence

"We would like to be a bigger retail bank in the U.S. The U.S. banking market is very fragmented, while we operate out of 1,500 locations in Canada," Mr. Barrett said, referring to the tradition of nationwide banking in Canada. "We've a lot to bring to the party in the U.S."

He wouldn't disclose potential acquisition targets, although he said Bank of Montreal would be free, through regional interstate banking compacts taking effect within a year, to expand into 30 states from its Illinois base.

"Our expansion in neighboring states," Mr. Barrett said, "is likely to be directed from Chicago towards the New York area, where we also operate, to try and develop that elusive thing, synergy, in our banking operations."

Mr. Barrett stressed that Bank of Montreal was in "no hurry" to make an acquisition, indicating that he's prepared to wait for the right candidate to emerge.

How Canadian Banks Rank as U.S. Players

Data as of midyear 1989

	Assets ($ in billions)	Full banking offices
Bank of Montreal	$16.9	16
Bank of Nova Scotia, Toronto	$8.1	9
Toronto Dominion Bank	$5.6	4
Royal Bank of Canada, Montreal	$4.5	5
Canadian Imperial Bank of Commerce, Toronto	$3.9	9
National Bank of Canada, Montreal	$1.3	4
Totals	$42.4	50

Source: American Banker

Bank of Montreal, Royal Bank, and Canadian Imperial rank among the top 10 in North America. Royal Bank had $95 billion in assets as of October 1989, of which $5.9 billion were held in the United States. Canadian Imperial had $84 billion in assets, $8.65 billion in the United States; Bank of Montreal, $67 billion, $12.1 billion in the United States.

All have had a U.S. connection since they set up offices in the last century to serve expanding trade and industry. Bank of Montreal has had a New York agency since 1858 and a Chicago agency since 1861. Royal Bank has had a U.S. office since 1899, and Canadian Imperial, a New York branch since 1872.

In the 1970s, the three banks became heavily involved in real estate and energy-related lending in the United States.

More recently, they have been among the leading banks in arranging financing for leveraged buyouts. For example, Canadian Imperial has about 60% of its $2.2 billion leveraged-buyout loan portfolio in U.S. credits and 38.5% of its real estate loan portfolio, or $1.77 billion, in the United States.

Factors Prompt Refocusing

Several factors have prompted these Canadian banks to refocus on the United States. Bankers and analysts say that Canada is overbanked, competition is getting tougher, there is little room to expand, and margins on lending at home are razor thin.

They add that Canadian banks lack the resources to compete against the big European banks and cannot obtain much market share in Japan because of protectionist sentiment there. The banks also have lost interest in lending to the debt-ridden Latin American countries.

Royal Bank, Canadian Imperial, Bank of Montreal, Bank of Nova Scotia, and Toronto Dominion hold 82.5% of the $443 billion in Canadian banking assets.

"Canada's a market about the same size as California," said Allyn W. Keiser, senior vice president and general manager of Canadian Imperial's New York branch. "It's much smaller and offers much less incremental opportunity. In the U.S., we've got a much greater opportunity to grow."

U.S. Thrift Acquisitions?

Analysts add that Canadian bankers believe the growing number of U.S. savings and loan associations being sold because of the thrift industry crisis will permit them to acquire banking franchises at cheap prices.

"Canadian banks are playing a wait-and-see game at the moment," said A. Roy Palmer, a banking analyst with Bunting Warburg Inc., Montreal. "The strategy is to be opportunistic."

With more than 100 years of nationwide banking experience at home, the banks believe they have an edge over their U.S. counterparts when it comes to running large-scale branch communications and clearing systems.

However, analysts express doubt at whether Canadian banks will find it all that easy to move into U.S. retail or middle market corporate banking.

"Markets in the U.S. are fragmented," said Geoff J. Francolini of Loewen, Ondaatje, McCutcheon & Co., Toronto. "There are a whole set of different requirements and different regulations. The consensus is that they will move into the U.S. but that they will move in gradually." □

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New Issue / January 30, 1990

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Class 20-C	9,850,000	9.00	September 2010
Class 20-D	31,100,000	9.15	May 2014
Class 20-E	32,100,000	9.30	December 2016
Class 20-G	18,110,000	9.30	March 2018
Class 20-H	15,130,000	9.30	January 2019
Class 20-J	23,310,000	7.00	March 2020
Class 20-K	13,800,000	9.50	February 2019
Class 20-L	11,730,000	9.50	August 2019
Class 20-M	15,000,000	9.50	March 2020
Class 20-N	52,140,000	9.50	March 2020
Class 20-O	26,330,000	9.50	September 2015
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California Thrifts Help EDS Profits

DALLAS — Data-processing contracts with Great Western Bank and World Savings, two of the 10 largest thrifts in California and the nation, helped propel Electronic Data Systems Corp. past $5 billion in revenue last year, the Dallas-based computer services company said.

EDS said it increased revenue by 13% in 1989 to $5.47 billion, and net income 13% to $435 million. Fifty-five percent of the 1989 revenue came from affiliates of its parent, General Motors Corp., down from 59% in 1988.

The company entered into multiyear processing agreements with several California thrifts last year, including Beverly Hills-based Great Western, Oakland-based World Savings, First Federal Savings and Loan of San Gabriel, and Palm Springs Savings Bank.

EDS also boosted its financial industry revenue by acquiring the electronic funds transfer network of Automatic Data Processing Inc., and the credit card processing subsidiary of Society Corp., Cleveland.

Other contracts announced last year were with the San Antonio Federal Credit Union; Meritor Savings Bank, Philadelphia; First City Bancorporation of Texas, Houston; and Caixa de Catalunya, a Spanish thrift. □

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MasterCard Shift May Change Card Marketing

By YVETTE D. KANTROW

LOS ANGELES — When Alex W. Hart revealed his plans for MasterCard International last week, he did more than plot the direction of the card association. He described what may prove to be a significant change in the way U.S. banks market credit cards.

Mr. Hart, who recently completed his first year as president of New York-based MasterCard, acknowledged that Visa and MasterCard had become too much alike, allowing American Express Co. and Sears, Roebuck and Co. to make inroads in the market.

ANALYSIS: *Follow-up on the news*

He vowed that through new advertising and an updated logo, MasterCard would clearly differentiate itself from Visa U.S.A. Inc.

Mr. Hart conceded that Visa will remain the No. 1 bank card. But MasterCard's goal will change. After a 10-year effort to upgrade what was once viewed as a down-market image, MasterCard now sees its role as the defender of the "bank-card heartland."

Forsaking the Wealthy

The change is significant for an industry that has put a lot of effort into seeking the upscale image associated with American Express. If successful, the shift could result in credit cards being hawked to a new, somewhat neglected market segment.

"The industry does have a little too much of a mind-set that looks to upper-income households," said Stephen Szekely, a vice president of Payment Systems Inc., Tampa, Fla. Considering that the bank card business is based on credit, the emphasis on upscale consumers is ironic, he said.

"If MasterCard carries through with this, issuers will perceive that there is an opportunity there, and offers [for credit cards] will be extended where they aren't now," Mr. Szekely added.

MasterCard's plan, which focuses on building brand identity, appears to confirm speculation among bankers that two distinct card organizations would emerge as a result of Mr. Hart's strategy.

Aiming for 2 Cards of Choice

MasterCard is suggesting a two-pronged attack on nonbank rivals. It will battle Sears' Discover card and American Express' Optima card for the retail-oriented mass market, leaving

See **MASTERCARD** *page* **5**

INSIDE NEWS

FINANCE

WELLS FARGO stock posted a slight gain on Tuesday, while other bank issues slipped back into the doldrums. Wells' shares have risen almost 10% in the past week. *Page 24*

INTERNATIONAL

THE PHILIPPINE debt-reduction pact is threatened by Bankers Trust's refusal to provide $20 million in new loans. *Page 18*

TECHNOLOGY

JOHN SINGLETON'S elevation to chief operating officer of Security Pacific was a natural progression for a technologist who understands the business of banking. *Page 3*

CONSUMER

AMERICAN EXPRESS is gamely challenging Western Union in the international money transmission business. *Page 8*

COMMENT

THE WHITE HOUSE recently sent clear messages that it would like to see deposit insurance reform as well as an overall restructuring of the financial services industry, writes Thomas "Lud" Ashley. *Page 4*

OTHER NEWS

WITH THE PITTSTON Coal strike at an end, the United Mine Workers of America called off boycotts against Manufacturers Hanover and Crestar. *Page 2*

INDEX

People in the News	2
Company Index	2
Grapevine	4
Executive Changes	6
Thrift Trigger Dates	12
March Calendar	20
Classified Advertising	20
Bank and Thrift Stocks	23

Supreme Court Reaffirms Banks' Securitization Power

By BILL ATKINSON

WASHINGTON — A major bank victory over the securities industry was reaffirmed Tuesday when the Supreme Court let stand an appellate court ruling that permits banks to package and sell mortgage loans as securities.

The decision ends the last legal challenge to a 1987 regulatory ruling that punched a big hole in the Glass-Steagall Act, which separates the banking and securities industries.

Banks used that ruling as the basis for packaging an array of consumer loans, not just mortgages, and selling them as securities to investors.

Experts said the Supreme Court action is likely to accelerate that trend, which could be broadened to include the securitization of commercial loans.

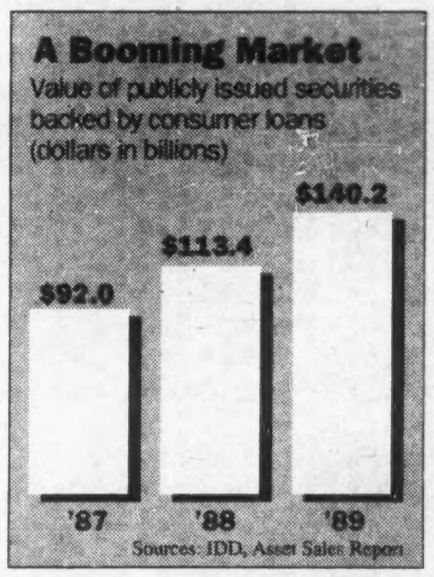
Opens Securitization Door

"The lid will come off and banks will begin looking toward other types of asset securitization," said Brian W. Smith, a partner with Stroock & Stroock & Lavan.

"Everyone has been kind of holding their breath to see what would happen. This is one more hole in the Glass-Steagall's wall."

The Supreme Court decision not to hear the appeal confirms that banks can not only sell but also underwrite securities backed by loans that they originated or bought. As a result, they can shed assets without paying fees to investment banks.

The action is a blow to the Securities Industry Association, which sued the Office of the Comptroller of the Currency in 1987 when the regulator permitted Los Angeles-based Security Pacific Corp. to package mortgage loans and sell them as securities to the public.



A federal district court agreed with the association's argument that the bank's actions violated the Glass-Steagall Act. That decision was reversed on appeal in the Second Circuit Court of Appeals in New York.

The Supreme Court's action "has the potential for creating seriously increased risks for federally insured banks and is disappointing because we didn't have our day in court," said a spokesman for the SIA. "The decision shows that banking regulators are being given deference by the courts because of the complexity of the issue."

Bankers and regulators alike applauded the Supreme Court's

See **SUPREME** *page* **16**

ABA Likely To Endorse Plan Allowing Big Failures

By ROBERT TRIGAUX

WASHINGTON — Under a proposal the American Bankers Association is expected to approve next week, big banks would be allowed to fail with the understanding that losses for uninsured depositors and unsecured creditors would be limited to the average cost of bank failures over time.

The ABA's deposit insurance reform committee, which unveiled general recommendations Tuesday, suggests the current system of $100,000 insurance should not be altered to accommodate bank failures.

Instead, the committee said, anyone uninsured or unsecured should face a loss based on a weighted average cost to the government of handling a bank failure over an as yet undetermined number of years.

Losses Could Be Narrow

Historically, that average cost has been about 11 cents on the dollar. That means that under the ABA committee plan, for example, a customer of a failed bank with $1 million on deposit would be compensated fully for the first $100,000, and would receive a "final settlement payment" of 89 cents on every dollar of the remaining $900,000. The actual average cost could

See **ABA** *page* **9**

Outlook Brighter For Economy, Greenspan Says

By ROBERT M. GARSSON

WASHINGTON — Indicating that the Federal Reserve is feeling less pressure to ease interest rates, Chairman Alan Greenspan told Congress Tuesday that economic prospects appear to be brightening.

Although it is too early to say for certain that the economic weakness evident in the latter part of 1989 has been put behind the country, "the evidence of recent weeks is more encouraging," Mr. Greenspan said in an appearance before a House Banking subcommittee.

The central bank chairman told the monetary policy subcommittee that the war on inflation is still the Fed's primary goal. "Unfortunately, no progress was made in 1989," he said.

See **ECONOMIC** *page* **16**

Chemical Names Alan Buckwalter President of Texas Commerce Unit

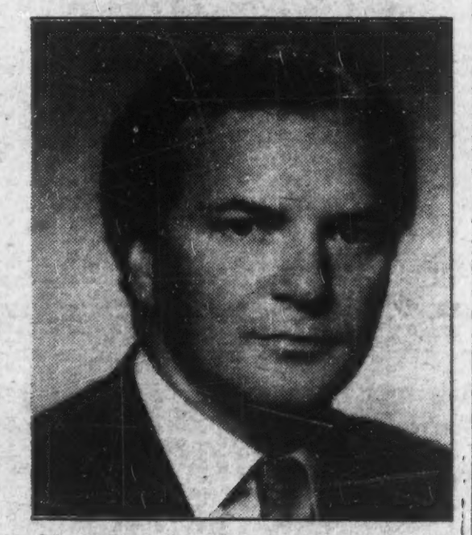
By STEVE KLINKERMAN

DALLAS — Bolstering its presence at its Texas unit, Chemical Banking Corp. on Tuesday named Alan Buckwalter president of Texas Commerce Bancshares' lead bank in Houston.

Mr. Buckwalter, 42, has held a variety of posts in his 20 years at Chemical, including stints as head of the bank's southern commercial banking division and its European corporate lending unit. He most recently served as managing director of Chemical's banking and corporate finance unit.

No Spot at Holding Company

Mr. Buckwalter will become president of Texas Commerce Bank Houston, filling a position that had been vacant for a year. He will not occupy a position at the Texas Commerce holding company.



Alan Buckwalter
Texas Commerce Bancshares

Though Mr. Buckwalter is the second high-level Chemical executive to be transferred to Texas in the past two months, a bank spokesman reiterated that Marc Shapiro is still in charge of Texas Commerce's day-to-day

See **CHEMICAL** *page* **9**

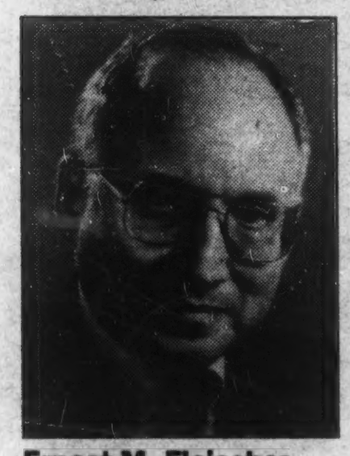
PEOPLE *in the news*

Fleischer Has No Argument With OTS Franklin Seizure

By PHIL ROOSEVELT

Although the federal government has seized Franklin Savings Association, his unorthodox thrift in Ottawa, Kan., Ernest M. Fleischer remains the picture of cool, detached reason.

"I believe the decisions that were reached were carefully thought through," said Franklin's former chairman and majority shareholder. Indeed, he hailed the thrift's entry into Office of Thrift Supervision conservatorship last Friday as "very proper."



Ernest M. Fleischer

Mr. Fleischer's comments came Tuesday even as some outsiders expressed dismay. The $11.4 billion-asset Franklin, which invested mainly in mortgage securities, emerged during the 1980s as a symbol of nontraditional thrift strategy and its potential for stellar profits.

"I still think they did a hell of a job," a top mortgage trader at a Wall Street firm said Tuesday.

Regulators seized Franklin after forcing it to book $119 million in losses from transactions involving financial futures. Franklin, which had used the futures as part of a hedging strategy, planned to take the losses over several years.

The loss threw Franklin out of compliance with capital regulations and, in turn, threatened to trigger a defeasance provision in an outstanding bond issue. That would have cost Franklin $185 million, but the government, as conservator, can void the provision.

Fleischer Plans Challenge of Government's Accounting Stance

Mr. Fleischer said he strongly disagrees with the government-imposed treatment of losses on futures contracts and plans to challenge it. "There are personal reputations on the line," he said, noting that Franklin's accounting approach had been approved by the thrift's inside accountants, outside auditors, and top executives.

But he said the government was wise to impose conservatorship since that can head off losses from the bond issue. "I think they acted very responsibly," he said.

Some press reports have indicated that Franklin may eventually be taken out of conservatorship and given back to its shareholders. That would be a first. Officials of the Resolution Trust Corp. and at the OTS in Topeka, Kan., could not be reached for comment.

Smooth Sailing Forecast for Franklin Under Conservatorship

Meanwhile, the unflappable Mr. Fleischer said he sees a smooth future for Franklin in conservatorship, though he has been ejected.

"I can't imagine how anything horribly adverse could happen," he said. The RTC has retained Lewis Ranieri, a legend in mortgage securities, as an adviser, he noted. Other Franklin executives and employees will retain their jobs under an RTC managing agent.

"I have contended for a long time that Franklin is not a one-man show," Mr. Fleischer said. "I've received a lot of credit for efforts that others carried out very well. This may end up satisfying the financial community that Franklin can run well without me." □

Harris Delays Takeover in Suburbs

Chicago Bank Says It Must Meet Added Regulations

By NANINE ALEXANDER

CHICAGO — Harris Bankcorp of Chicago said Tuesday that it had withdrawn an application to acquire Frankfort Bancshares Inc. in the Chicago suburbs "in order to meet additional regulatory requirements."

Harris agreed in August 1989 to acquire Frankfort for $15.5 million in cash. It plans to refile the application when the requirements have been met and expects to be able to complete the deal this year.

The brief announcement was apparently prompted by an article in *Crain's Chicago Business* on Monday. It quoted unnamed industry sources as saying that the Federal Reserve Bank of Chicago had found that Harris was not living up to requirements under the federal Community Reinvestment Act.

Speculation by *Crain's* that regulators might be using CRA to prod banks into offering more low-cost banking services to consumers was denied by Frank Dreyer, senior vice president of the Chicago Fed.

Last February, the Fed rejected a bid by Continental Bank Corp. to acquire a $14 billion-asset Arizona bank. Fed governor Wayne Angell persuaded the board to vote against Continental because it was taking so long to return the bank-holding company to private ownership.

At the time, however, Mr. Angell said Continental's record on community reinvestment may have been enough to reject the application. Last July, Leader Federal Savings and Loan Association of Memphis, was denied an application to open a branch by the Federal Home Loan Bank Board because its record on community lending did not pass muster.

Community reinvestment activists said they were surprised by the *Crain's* article.

Bruce Gottschall, executive director of the Neighborhood Housing Services of Chicago, a nonprofit organization that helps low- and moderate-income individuals buy and rehabilitate one-to-four-family homes, described Harris as one of the banks that had been making an effort that went to the spirit of CRA.

"If Harris can't get past the regulators, then I don't know who can," said Mr. Gottschall. □

End of Coal Strike Halts 2 Bank Boycotts

By CURTIS SIMMONS

NEW YORK — In declaring the end Tuesday of a bitter 10-month dispute with the Pittston Coal Group, the United Mine Workers of America also lifted boycotts against two banks through which it had hoped to gain negotiating leverage.

The banks – Manufacturers Hanover Trust Co., New York, and Crestar Bank, Richmond – faced protests ranging from picket lines to petitions challenging their lending records under the Community Reinvestment Act.

Pressure in Boston

Also as part of the contract dispute, the miners union took a tough stance against Shawmut Bank, Boston. The union pressured the Boston City Council and Mayor Raymond Flynn to remove $20 million in city deposits from the Shawmut Corp. subsidiary. William Craig, a bank vice chairman, was a Pittston Co. director and, the union said, failed to respond to requests to mediate the strike.

Mr. Craig resigned from the bank last October to begin a second career as an investment adviser. Retaining his seat on the Pittston board, he denied the union had forced his move, but the miners claimed victory.

Effort to Block Purchase

The UMW then went after Manufacturers Hanover, a participant in a $100 million Pittston credit facility. The union tried to stop the bank from buying $1.2 billion in deposits from Goldome, a failing upstate New York savings bank, because of alleged Community Reinvestment Act violations in Brooklyn, N.Y.

The CRA complaint delayed the deal's completion, but a Federal Reserve Board ruling vindicated Manufacturers Hanover.

For Crestar, another Pittston creditor, the strike was a public-relations nightmare. Union members picketed the bank, and the local press gave the protests extensive coverage. Cheryl Jenkins, a Crestar spokeswoman, said the bank had no large commitment to Pittston but refused to sever the relationship.

Nearly 2,000 UMW members in Kentucky, Virginia, and West Virginia voted 63%-to-37% Monday to accept a Pittston contract offer. □

Correction

A item in the Feb. 15 News Briefs feature ("BFS Bancorp Sues Janitor, Alleging Legal Violations," page 2) incorrectly named the city in which the company is based. The company is based in New York City.

NEWS *briefs*

Mercury Savings Reduces Staff 10% After Asset Cut

HUNTINGTON BEACH, Calif. — Mercury Savings and Loan Association said it is cutting its staff 10% immediately to correspond with planned reductions in the thrift's function and assets.

In the past 12 months, assets have declined 20%, to about $2 billion. The personnel cutbacks primarily affect lending operations.

As part of the staff cuts, Ronald Hansen has resigned as chief financial officer. His post will be assumed temporarily by the chief operating officer.

Northern Trust Directors Declare 2-for-1 Stock Split

CHICAGO — Northern Trust Corp. said its board declared a two-for-one stock split. The amendment would double the number of authorized shares to 70 million.

The action requires shareholder approval of proposed amendments to its incorporation certificate.

Fannie Mae Finance Chief Resigns in Consolidation

NEW YORK — The Federal National Mortgage Association said Tuesday that Bruce C. McMillen had resigned as chief financial officer amid a consolidation of the agency's financial-management functions.

Fannie Mae said that Timothy Howard, formerly executive vice president of asset management, would take on Mr. Millen's responsibilities in addition to his own. He will be executive vice president as well as chief financial officer.

Mr. Howard will now be responsible for all financial activities, including asset and liability management, financial planning, investor relations, and efforts at raising housing capital in domestic and international market.

— Reuters

COMPANY *index*

This index lists significant references to companies and banks in today's issue. Page numbers refer to where stories begin.

A
Ace American Cash Express 8
H.F. Ahmanson 6
American Bankers Association 1,10
American Express 1,8
Ameritech 1
Avis 1

B
Bancal Tri-State Corp. 6
Bank of Boston 6,8,24
Bank of New England 24
Bank of New York 1,6
Bank of Tokyo 18,22
BankAmerica 6,10,22
Bankers Trust 4,18,22,24
Banque Paribas 22
Barclays Bank 6
Beneficial 6
Bessemer Trust 8
BFS Bancorp 2
Bristol Savings Bank 6
Brown Brothers Harriman 24
BSD Bancorp 6

C
Calif. Community Reinvestment 6
Canadian Bankers Assn. 18
Canadian Imperial 22
Centerbank 6
Chase Manhattan 8
Chemical Banking 1
Cheshire County Savings Bank 6
Citicorp 6,8,22
Citizens and Southern 10
Citizens First National of NJ 6
Comerica 24
Commerzbank 22
Cortel Cellular 22
Continental Bank 2,3,22
CoreStates Financial 3
County Bank 6
Credit Life 6
Credit Suisse 22
Crestar 2

D - E
Donaldson, Lufkin & Jenrette 1
Dresdner Bank and Trust 22
Drexel Burnham Lambert Group 1
Empire of America 6
Essex Corp. 6
Exxon 1

F - G
Federal National Mortgage Assn. 2
First Chicago 22,24
First Fidelity Bancorp. 6
First USA 6
Frankfort Bancshares 2
Franklin Savings 2
Fred Meyer 3
Gateway Bank 6
Georgia-Pacific 22
Germantown Savings Bank 6
Goldman Sachs 22
Great Northern Nekoosa 22

H - L
Harris Bankcorp 2,8
Hotzka, Donahue & Nerlino 6
HomeFed Bank 6
Hongkong and Shanghai Banking 4
Huntington Bancshares 10
IBM 10
Independent Bankers Assn. 1
KeyCorp 24
LIN Broadcasting 22

M
Manufacturers Hanover 2,8,18
MasterCard 1
McCaw Cellular Communications 22
Mercury Savings 2
Metro One 22
Metromedia 22
Midland Bank 22
Minnesota Mining & Mfg. (3M) 1
MNC Financial 24
Monetary Management 8
J.P. Morgan 22

N - R
National Westminster 6,22
NBD 24
NCNB 10
New York State Bankers Assn. 6
Nikko Securities 1
Northern Trust 2,8,24
Norwest 24
PaineWebber 24
Payment Systems 1,8
Phoenix-Hecht 3
Pittston Coal 2
PNC Financial 1
Rauscher Pierce Refsnes 1
Resolution Trust Corp. 1,4
Rio Salado Bank 4

S - Z
Salomon Brothers 18
Sanwa Bank 22
Seafirst 3
Sears Roebuck 1,3
Securities Industry Assn. 1
Security Pacific 1,6,10
Shawmut 2
Shearson Lehman Hutton 24
Shutts & Bowen 8
Signet Banking 6
State Street Boston Corp. 6
Stroock & Stroock & Lavan 1
Sumitomo Bank 22
Swiss Bank 22
Toronto-Dominion Bank 22
Union Bank of Switzerland 22
United Jersey 6
United Savings 1
U.S. Trust 6
Visa 1
Washington Mutual Savings 6
Wells Fargo 3,24
Western Independent Bankers 4
Western Union 8
Westinghouse 6

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cov. 1, Pgs: 2, 3, 4, 16

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